

PROPOSED ACQUISITION BY SALCON BERHAD OF 10,307,383 ORDINARY SHARES OF S\$1.00 EACH FULLY PAID IN SALCON DARCO ENVIRONMENTAL PTE LTD (FORMERLY KNOWN AS DARCO ENVIRONMENTAL PTE LTD), REPRESENTING THE REMAINING 40% OF THE TOTAL ISSUED AND PAID-UP SHARE CAPITAL OF SALCON DARCO ENVIRONMENTAL PTE LTD (FORMERLY KNOWN AS DARCO ENVIRONMENTAL PTE LTD) FROM DARCO WATER TECHNOLOGIES LTD

1. INTRODUCTION

The Board of Directors of Salcon Berhad (“**Salcon**” or “**the Company**”) is pleased to announce that the Company has on 26th April 2013 entered into a Sale and Purchase Agreement with Darco Water Technologies Ltd (Registration No. 200106732C) (“**Darco Water Technologies**”) to acquire 10,307,383 Ordinary shares of S\$1.00 each fully paid in Salcon Darco Environmental Pte Ltd (formerly known as Darco Environmental Pte Ltd) (Registration No. 200107899E) (“**SDE**”), representing the remaining 40% of the total issued and paid-up share capital of SDE not already owned by Salcon (“**Sale Shares**”), for a total cash purchase consideration of RMB63,000,000.00 (equivalent to RM31,027,757) (**SPA**) [**Proposed Acquisition**].

Upon completion of the Proposed Acquisition, SDE will become a wholly-owned subsidiary of the Company.

2. INFORMATION ON DARCO WATER TECHNOLOGIES

Darco Water Technologies (Registration No. 200106732C) was incorporated in 1999 in Singapore and listed on the Singapore Exchange (SGX) in 2002.

Darco Water Technologies is a provider of integrated engineering and knowledge based water treatment solutions and its Board of Directors comprise Thye Kim Meng, Heather Tan Chern Ling, Teo Sin Yng, Joshua Siow Chee Keong, Thye Ze Pin and Ngiam Zee Moey.

The substantial shareholders of Darco Water Technologies and their respective shareholdings as at 26 April 2013 are as follows:

Name of Substantial Shareholder	Number of Shares (Direct Interest)	Number of Shares (Deemed Interest)	Total	Percentage
StoneRobert Alexander	38,725,000	-	38,725,000	14.00%
Thye Kim Meng	63,795,711	-	63,795,711	23.06%

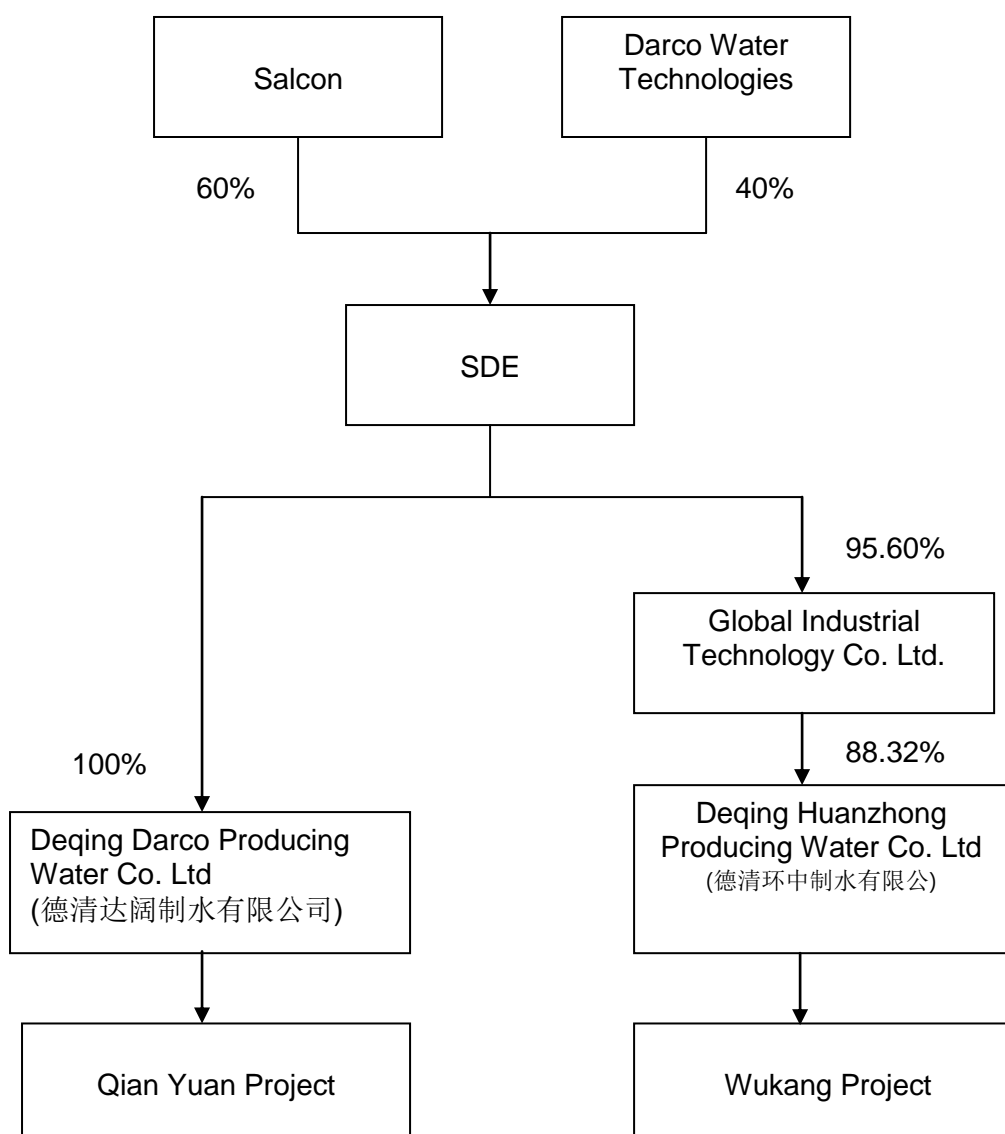
3. INFORMATION ON SDE AND ITS GROUP OF COMPANIES

3.1 SDE

SDE (Registration No. 200107899E) is a private limited company incorporated in Singapore on 8 December 2001. The present issued and paid up capital of Darco Environmental is S\$25,768,459 divided into 25,768,459 ordinary shares of S\$1.00 each (“**Shares**”), of which Darco Water Technologies holds 10,307,383 Shares and Salcon holds 15,461,076 Shares, representing 40% and 60% of the total number of Shares respectively. In year 2012, Salcon, pursuant to a sale and purchase agreement dated 21 May 2012 acquired the initial 60% equity interest in SDE from Darco Water Technologies for a cash purchase consideration of RMB95,830,690.00 (equivalent to RM47,474,524).

SDE is an investment holding company and its subsidiaries (collectively referred to as “**SDE Group**”) are principally engaged in the business of operating and managing water treatment plants and sale of treated water.

The existing corporate and shareholding structure of SDE is set out as follows:-



Further details of SDE are contained in Schedule 1.

3.2 Deqing Darco Producing Water Co Ltd

Deqing Darco Producing Water Co Ltd (Company Registration No.: 330500400007391) ("**Deqing Darco**") is a wholly foreign owned enterprise incorporated under the laws of The People's Republic of China ("**PRC**"), the particulars of which are set out in Schedule 1.

Deqing Darco owns and operates the water treatment plant of 100MLD located in Deqing County Zhejiang, Province of China in the PRC ("**Qian Yuan Project**") pursuant to a concession granted to SDE. SDE has also entered into a water purchase agreement with Deqing County Water Co. Ltd. ("**Deqing Water Co.**") pursuant to which Deqing Water Co. agreed to purchase treated water from Darco Environmental for a period of 25 years.

3.3 Deqing Huanzhong Producing Water Co Ltd

Deqing Huanzhong Producing Water Co Ltd (Company Registration No.: 330500400006876) ("**Deqing Huanzhong**") is a Sino-foreign contractual joint venture duly established under the laws of the PRC, the particulars of which are set out in Schedule 1.

Globe Industrial Technology Co., Ltd., which is 95.60% owned by SDE holds approximately 88.32% of the equity interest in Deqing Huanzhong while the remaining equity of approximately 11.68% is held by Deqing Water Co.

Deqing Huanzhong owns and operates the water treatment plant of 60MLD located in Deqing County Zhejiang, Province of China in the PRC ("**Wukang Project**"). Deqing Huanzhong had entered into a water purchase agreement with Deqing Water Co, pursuant to which Deqing Water Co agreed to purchase treated water from Deqing Huanzhong for a period of 22 years.

3.4 Globe Industrial Technology Company Limited

Details of Globe Industrial Technology Company Limited is set out in Schedule 1.

3.5 Financial information on SDE and SDE Group

The following financial information were extracted from the audited financial statements of the respective companies for the year ended 31 December 2011:

Financial year ended 31 December 2011	SDE	Globe Industrial Technology Company Limited	Deqing Daro Producing Water Co Ltd	Deqing Huanzhong Producing Water Co Ltd
Net Profit	(RM289,756)	(RM270,530)	(RM1,227,063)	RM3,875,730
Net Asset	RM4,887,508	RM3,727,366	RM87,664,390	RM36,344,987

4. DETAILS OF THE PROPOSED ACQUISITION AND SALIENT TERMS OF THE SPA

4.1 Consideration and Payment

The Sale Shares are to be purchased by Salcon free from all encumbrances together with all rights, benefits, dividends and entitlements attaching thereto as at the Completion Date (as hereinafter defined), upon and subject to the terms and conditions of the SPA for a total sum of RMB63,000,000.00 (equivalent to RM31,027,757) ("**Purchase Consideration**").

A refundable deposit of RMB9,450,000.00 (equivalent to RM4,698,489) ("**Deposit**") has been paid to Darco Water Technologies and in the event that Completion takes place in accordance with the provisions of the SPA, the Deposit shall be deemed to have been applied towards payment of the Purchase Consideration and Salcon shall, upon Completion, pay to Darco Water Technologies only the balance Purchase Consideration.

4.2 Conditions Precedent

The SPA is conditional upon the following:-

- (a) the shareholders of Darco Water Technologies passing at the Extraordinary General Meeting, a valid resolution to approve the sale of the Sale Shares and the transactions contemplated under the SPA;
- (b) no Termination Event having occurred or subsisting in relation to Darco Water Technologies or Salcon (as the case may be) at Completion;
- (c) all consents and/or waivers from all relevant third parties, including any Relevant Authority, required for the sale of the Sale Shares by Darco Water Technologies to Salcon and/or the transactions contemplated under the SPA (whether under Applicable Laws or any agreements entered into by the SDE Group or otherwise), having been obtained and remaining in full force and effect, and if any consent is subject to conditions, such conditions being acceptable to Salcon (including without limitation such consents and/or waivers as may be necessary without which would constitute a default under any instrument, contract, document or agreement to which Darco Water Technologies

or any SDE Group is a party or by which Darco Water Technologies or any SDE Group or its respective assets are bound).

4.3 Completion

Completion shall take place at the offices of Darco Water Technologies or such other places as the parties may agree on the Completion Date (or such other date and time as the parties may agree in writing), being a date as may be mutually agreed between Darco Water Technologies and Salcon within the period of three (3) calendar months from the date of satisfaction of the above Condition Precedent 4.2(a) or, failing agreement, the last business day of such period ("**Completion Date**").

5. BASIS OF ARRIVING AT THE PURCHASE CONSIDERATION AND JUSTIFICATION OF THE PURCHASE CONSIDERATION

The total Purchase Consideration of RMB63,000,000.00 (equivalent to RM31,027,757) was arrived at based on the discounted cashflows of projected earnings of SDE at 11%. The basis of 11% discounted cashflows rate was agreed after taken in the consideration of valuation benchmarking in China's water industry which is in the range of 8% to 12%.

6. SOURCE OF FUND

85% of the Purchase Consideration will be funded through bank borrowings while the remaining 15% by internal generated funds.

7. LIABILITIES TO BE ASSUMED

There will be no liabilities, including contingent liability or guarantee, to be assumed by Salcon arising from the Proposed Acquisition.

8. RATIONALE AND PROSPECT OF THE PROPOSED ACQUISITION

The Proposed Acquisition is in line with the expansion plan of core business activities of Salcon Group. In addition, subsequent to the Proposed Acquisition, Salcon will have full control on the potential upcoming expansion plan on the Wukang water treatment plant.

The Proposed Acquisition is expected to bring the following benefits to the Group:

- (i) Increase a medium to long term stable recurring income to the Group;
- (ii) Enable Salcon to build a bigger and stronger platform to further expand its presence in the large PRC market, on top of its current presence.

9. RISK FACTORS

The risk factors for the Proposed Acquisition include but not limited to those associated with changes in the economic, political and regulatory conditions in the PRC such as changes to government policies and administration, interest rates, taxes and exchange control regulations.

10. EFFECTS OF THE PROPOSED ACQUISITION

10.1 Share Capital and Substantial Shareholder's shareholding

The Proposed Acquisition does not have any effect on the issued and paid-up share capital and substantial shareholding structure of Salcon.

10.2 Earnings per share

The Proposed Acquisition will not have any significant effect on the earnings per share of Salcon Group for the financial year ending 31 December 2013. The Proposed Acquisition is however expected to contribute positively to the future earnings of Salcon Group.

10.3 Net Assets

The Proposed Acquisition will not have any significant effect on the net assets per share of Salcon Group for the financial year ending 31 December 2013.

10.4 Gearing

Based on the latest audited consolidated financial statements of the Company for the financial year ended 31 December 2011 and the assumption that RM26,374,000 representing 85% of the Purchase Consideration is financed through bank borrowings to be procured by the Company for the Proposed Acquisition, the gearing of Salcon Group will increase to 0.21 times from 0.16 times.

11. PERCENTAGE RATIOS

The highest percentage ratio applicable to the Proposed Acquisition is 10.07% pursuant to paragraph 10.02 (g) of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad.

12. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors and Major Shareholders of Salcon and/or persons connected with them has any interest, direct or indirect, in the Proposed Acquisition.

13. DIRECTORS' STATEMENT

After having taken into consideration the rationale of the Proposed Acquisition, the Board is of the opinion that the Proposed Acquisition is in the best interests of Salcon.

14. APPROVALS REQUIRED

The Proposed Acquisition is not subject to approval of the shareholders of Salcon. However, the Proposed Acquisition is subject to the following:-

- (i) Approval of the shareholders of Darco Water Technologies at an Extraordinary General Meeting to be convened.
- (ii) Consent from relevant authority, if required.

15. ESTIMATED TIMEFRAME FOR COMPLETION

The Proposed Acquisition is expected to be completed within 90 days from 26 April 2013.

16. DOCUMENTS FOR INSPECTION

The SPA is available for inspection at the registered office of Salcon at 15th Floor, Menara Summit, Persiaran Kewajipan USJ 1, 47600 UEP Subang Jaya, Selangor Darul Ehsan during normal office hours from Monday to Friday (except public holidays) for a duration of three (3) months from the date of this announcement.

This announcement is dated 26th April 2013.

SCHEDULE 1

Salcon Darco Environmental Pte Ltd

Date and place of incorporation : 8 December 2001/Singapore

Registered number : 200107899E

Registered office : 123, Woodlands Industrial Park E5
Woodlands E-Terrance
Singapore 757498

Issued and paid-up share capital : S\$25,768,459 divided into 25,768,459 shares
as at the date of the SPA

Shareholder(s) as at the date of : No. and class of shares Registered holder
the SPA

	10,307,383 ordinary shares	Darco Water Technologies Ltd
	15,461,076 ordinary shares	Salcon Berhad

Directors : Thye Kim Meng
Heather Tan Chern Ling
Ooi Cheng Swee
Law Woo Hock
Tee Xun Hao

Globe Industrial Technology Company Limited

Date and place of incorporation : 17 July 2002/Hong Kong

Registered number : 806446

Registered office : Room D, 11/F, 8 Hart Avenue, 8-10 Hart Avenue, Tsim
Sha Tsui, Kowloon, Hong Kong

Authorised share capital as at : HK\$226,353 divided into 226,353 ordinary shares of
the date of the SPA HK\$1 each

Issued and paid-up share capital : HK\$226,353 divided into 226,353 ordinary shares of
as at the date of the SPA HK\$1 each

Shareholder(s) as at the date of : No. and class of shares Registered holder
the SPA

	216,352 ordinary shares	Salcon Darco Environmental Pte Ltd
	10,000 ordinary shares	Fam Ming Chun
	1 ordinary share	Yeoh Ah Luan

Directors : Thye Kim Meng
Yeoh Ah Luan
Ooi Cheng Swee
Law Woo Hock
Tee Xun Hao

Deqing Huanzhong Producing Water Co Ltd

Date and place of incorporation : 28 September 2002, PRC
Registered number : 330500400006876
Registered office : Deqing Administration of Industry and Commerce
Registered capital : US\$8,939,000
Outstanding Registered Capital : NIL
Total Investment : US\$8,939,000

Shareholder(s)	<u>No. of shares</u>	<u>Registered holder</u>
	88.32 per cent.	Globe Industrial Technologies Company Limited

Directors : 1. Thye Kim Meng
2. Teo Sin Ying
3. Thye Ze Pin
4. Zhang Jue
5. Chen Xin Nian
6. Hu Xiang Lan
7. Xuan Hai Jiang

Deqing Darco Producing Water Co Ltd

Date and place of incorporation : 13 February 2006, PRC
Registered number : 330500400007391
Registered office : Deqing Administration of Industry and Commerce
Registered Capital : US\$11,960,000
Total Investment : US\$29,900,000

Shareholder(s)	<u>No. of shares</u>	<u>Registered holder</u>
	100 per cent.	Salcon Darco Environmental Pte Ltd

Directors : 1. Thye Kim Meng
2. Thye Ze Pin
3. Zhang Jue